

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BAC 3684 – SECURITY INVESTMENTS AND PORTFOLIO MANAGEMENT (All sections / Groups)

09 MARCH 2017
09.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 4 Questions only .
2. Attempt **ALL** questions . All questions carry equal marks and the distribution of the marks for each question is given .
3. Please print all your answers in the Answer Booklet provided .

QUESTION 1

A. Malaysia Packaging Industry Limited (MPIL) earned RM10 a share last year and paid a dividend of RM6 a share. Next year, you expect MPIL to earn RM11 and continue its payout ratio.

Show your working steps.

- i. Assume that you expect to sell the stock for RM132 a year from now. If you require 12 percent return on this stock, compute how much you would be willing to pay for it.

(10 marks)

- ii. Given the expected earnings and dividend payments if you expect a selling price of RM110 and require 8 percent return on this investment, how much would you pay for the MPIL stock?

(4 marks)

- iii. Over the long run, you expect dividends for MPIL to grow at 8 percent and you require 11 percent return on the stock. Calculate how much you would pay for this stock.

(5 marks)

- iv. If you notice that there are high demands on packaging of MPIL from a market, you suddenly revise your growth estimate for MPIL to 9 percent without changing the required rate of return, 11 percent:

- a. What is the maximum P/E ratio you will apply to MPIL?

(3 marks)

- b. Determine the maximum price you will pay for the stock.

(3 marks)

(Total: 25 marks)

Continued

QUESTION 2

- A. Many observers believe that industries evolve through at least four stages: the pioneering stage, the expansion stage, the stabilisation stage and the deceleration in growth and/or decline stage.

Discuss the impact of substitute products on the steel industry's profitability.

(5 marks)

- B. Interest rate projections are used in investment management for a variety of purposes. Identify and briefly describe **FIVE (5)** significant reasons why interest rate forecasts may be important in reaching investment conclusions.

(5 marks)

- C. In an efficient market, investors may be able to gain abnormal return if they have information while others do not have.

Briefly explain the **THREE (3)** forms the efficient market hypothesis.

(15 marks)

(Total: 25 marks)

QUESTION 3

- A. Mary is planning to invest her money in bonds issued by Macro Holdings Limited.

The following information was given to her by her broker:

Coupon rate	4 percent
Par value	RM100
Maturity	20 years

Continued

Mary's required rate of return from any investment is set at 6 percent. As you are her broker, you are required to:

Show your working steps.

- i. Determine the intrinsic value of the bond which allows Mary to spend.
(2 marks)
- ii. If the market interest rate increases by 2 percent, how would this increase impact the price of the bond? Justify your answer.
(4 marks)
- iii. Compute the current yield and the yield to maturity if the bond is currently trading at RM100.
(3 marks)
- iv. Explain why the current yield of the bond is not the same as its yield to maturity.
(4 marks)

B. Islamic finance has expanded its presence in Europe mainly via capital markets. Islamic funds continued to expand in the region, while sukuk listings by foreign issuers on the European Exchanges are also on the rise.
Describe the concept of Ijarah in the Islamic financial services industry.

(8 marks)

C. A portfolio is a collection of all investments held by an individual investor or an institution investor.

Justify why most investors do hold diversified portfolios.

(4 marks)

(Total: 25 marks)

Continued

QUESTION 4

A. Pecca Group Limited does a lot of investing in the stock market and is a frequent user of stock-index options. The management of Pecca is convinced that the market is about to undergo a broad retreat and has decided to buy a put option on the S&P 100 index. The put option has a strike price of RM690 and is quoted in the financial press at RM4.50. Although the S&P Index of 100 stocks is currently at RM686.45, the management thinks that the index price will drop to RM665 by the expiration date on the option.

Show your working steps.

- i. How much profit will Pecca make?

(6 marks)

- ii. How much will Pecca lose if the S&P 100 index price goes up to RM715 by the date of expiration? Argue your answer.

(8.5 marks)

B. Technical analysis can be applied to both an aggregate of prices and individual stocks. Technical analysis includes the use of graphs and technical indicators.

Discuss **FOUR (4)** disadvantages of employing technical analysis in the financial asset investment.

(6 marks)

Continued

C. Consider the following information on three different assets.

Show your working steps.

Asset	Expected Return (%)	Risk (%)
X	8	12
Y	10	15
Z	13	15

Based on the risk and return trade-off, which of the three assets should you invest in? Justify your answer.

(4.5 marks)

(Total: 25 marks)

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